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DRA Briefing

A.05-02-012

**Cal Am Monterey & Felton Districts GRC
On Consent Agenda, 11-9-2006**

Handouts: DRA Opening and Reply Comments on Proposed Decision. See Appendix A to the Opening Comments for recommended changes to FOF, COLs and OPs to support these positions.

1. **San Clemente Dam.** PD is correct to authorize a memorandum account for tracking San Clemente Dam costs with a cap. (See PD pg. 46, DRA Reply Comments at page 2.) Interest rate on memo account should be 90-day commercial paper rate. AFUDC formula in PD is for energy utilities. (See PD, pages 40 – 46, DRA Opening Comments pages 9 - 12.)

At a minimum, the Commission should modify the Proposed Decision to assure that only ESA compliance costs relating to the San Clemente Dam that are not already embedded in rates are booked to the memorandum account and that ESA compliance costs earn interest at the 90-day commercial paper rate as required under D.94-06-033. Routine environmental compliance operating expenses should never be treated as a form of plant. (i.e. costs of surveys, monitoring, predator detection and removal, personnel training, and fish trap and truck.) (See DRA Opening Comments, page 12. And PD, page 61.)

2. **PD correctly denies Cal Am's request for memo accounts to track fines** from State Water Resources Control Board Order 95-10 and the Endangered Species Act. (See PD, pages 60 – 64, DRA Reply Comments on PD at pages 3 & 4.)
3. **Carmel River Dam.** (See DRA Opening Comments on PD at pages 16 – 18; and PD pages 47 - 61.)
 - The PD fails to have Cal Am shareholders bear any risk of the abandoned Carmel River Dam. Cal Am's shareholders must bear part of the risk of this abandoned project.

From DRA Opening Comments on PD at page 17:

As the Commission has previously stated and as the Proposed Decision recognizes:

[T]he ratepayer does not become the utility's underwriter in a period of high risk. At all times, the shareholder will bear some of the risks of abandoned projects. The utility should bear a major part of the risk in order to provide proper management incentives. (Proposed

Decision p. 53, *citing Re Pacific Gas and Electric Company*, (1984) 15 CPUC 2d 123, 125 (D.84-05-100) emphasis added.)

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| Total Carmel River Dam Costs for which Cal Am seeks recovery | \$3,646,452 |
| Accrued AFUDC interest (disallowed) | <u>(\$356,349)</u> |
| Net Balance (Direct Carmel River Dam costs) | \$3,290,103 |

The PD allows Cal Am to recovery 100% of its direct costs from ratepayers or \$3,290,103, plus interest at the 90 day commercial paper rate of \$311,136 for a total of \$3,601,239. Add to that the \$933,000 ratepayers have already compensated Cal Am in earnings while the project was in CWIP (2003-2005), for a total of **\$4,534,200** that Cal Am will have recovered on this abandoned project from ratepayers. This is not sharing the costs. DRA recommends that the Commission split the costs between the shareholders and the ratepayers.

- In D.92497 the Commission allocated 74.22% of the abandoned project costs to ratepayers and 25.78% to shareholders. This was after removing AFDUC. *Re SoCal Gas Co.*, (D.92497) 4 CPUC 2d 725, 830. The Commission could do the same here.
4. **Rate Design.** DRA supports keeping the existing rate design, as shown in the tables circulated by ALJ Cooke Monday November 6th. (See DRA Opening Comments at page 20, and PD at pages 64 – 69.)

Links

Proposed Decision: <http://www.cpuc.ca.gov/EFILE/PD/60507.pdf>

DRA Opening Comments on the PD: <http://www.cpuc.ca.gov/EFILE/CM/61192.htm>

DRA Reply Comments on the PD: <http://www.cpuc.ca.gov/EFILE/CM/61313.htm>